RICHARD RUSSELL'S DOW THEORY LETTERS INCORPORATED

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THE PICTURE: The current whipping boys in the world of finance are the **derivatives.** Which is ridiculous because most people (and most assuredly the financial writers) don't have the slightest idea of what they're talking about in this area. For the record, stocks are actually derivatives, futures and options are derivatives, bonds are derivatives, dollars are derivatives -- *anything that represents something else is a derivative.* There's nothing inherently dangerous about a derivative -- the danger lies in the people who use them without knowing what they're doing.

Today anger is directed specifically against two types of derivatives -- futures and options. But obviously these two derivatives can be used for protection as well as for pure speculation. Example -- you have a large portfolio of stocks and you're worried about the market. What can you do? You can buy a bundle of S&P out-of-the-money put options which will serve to protect your portfolio on the downside.

But wait -- you can also be stupid. You're bullish on the market and you've sold (not bought) a carload of puts (hoping they'll expire worthless and you'll keep the premium). But then, alas, the market goes against you. Oops, now you're facing "the big squeeze." But who told you to sell puts without an exit plan? And why didn't you cover your puts when the market started to decline against you? Listen, mess with anything in the markets without knowing exactly what you're doing and you're begging for disaster. That's what happened to Mr. Citron of Orange Country and to Mr. Leeson of the ill-fated Barings bank. But don't blame derivatives -- blame those two fools who didn't know what they were doing.

All right, enough about derivatives, let's cut to the markets. I've said it before, and I'll repeat it -- **the bear loves to strike in the area least understood by investors.** And that's what's been happening. The "least understood" area is the currencies. The bear's weapon -- a mighty club that's been battering the one item that all US securities are denominated in -- **the dollar.**

As for the stock market, as the Dow crossed above 4000 a few weeks ago we witnessed an extraordinary collection of divergences, lags and non-confirmations plus a decided dearth of new individual stock highs. Buying has been concentrated all along in the big, high-capitalization stocks which are heavily represented in the Dow and even in the S&P Composite. I'm not going to describe or list all the divergences and lags (again), but if you've been reading these Letters over the last few months you have a pretty good idea of what the problems are.

The name of this report is *Dow Theory Letters*, and veteran readers know that I adhere closely to the tenets of Dow Theory. Since **VALUES** constitute the most fundamental basis of Dow Theory, I want to state again that investors have been buying one very high-priced market.

Consider the following -- total dividends on the S&P 500 are now $13.52. At the current price of 483, the S&P is selling at **35.7 times dividends.** This puts the **price/dividend ratio up in the stratosphere.** History tells us that anytime the S&P sells at over 35 times dividends the market is skating on razor-thin ice.

The 35 times dividends ratio tells us that sentiment towards the market continues to be **extremely bullish.** It tells us that the stock market is much loved. However, history also tells us that this

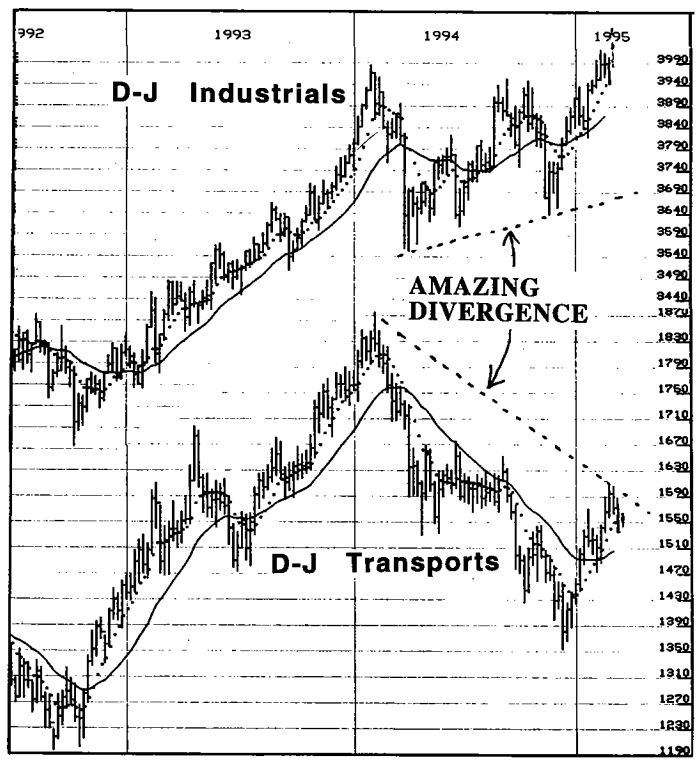
Mar. 3 DJIA 3989.61; PTI 3992; A-D Ratio -8.35
Mar. 10 DJIA 4035.61; PTI 3989; A-D Ratio -8.60
Dow Yield: 2.70%; Dow Price/Earnings: 15.7
Dow 200-day MA: 3826; Dow 30-day MA: 3953
Dow Times Book Value: 3.61; PTI 89-day MA: 3971
Percentage of Undervalued Blue-chips: 8%
Dow Low Risk Buy Index: +50; Gold-PTI: 710
Gold 200-day MA: 383.79

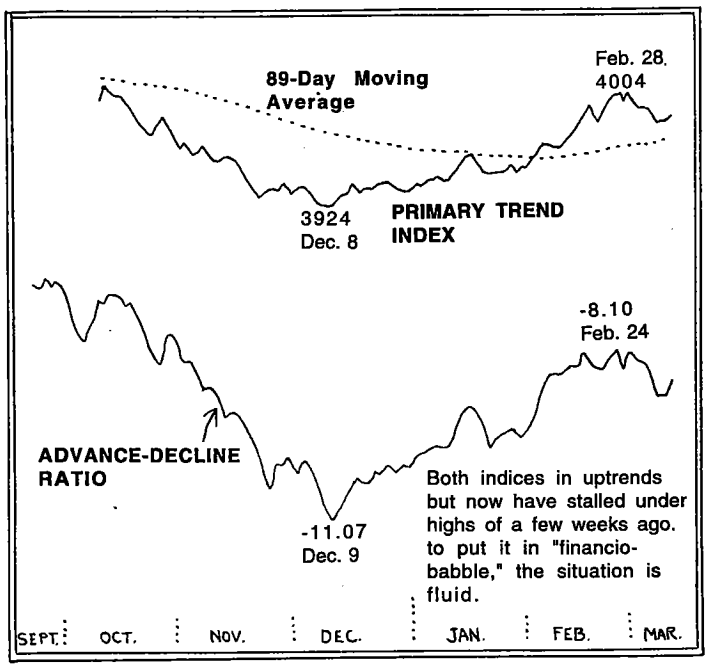
is a dangerous love affair. And like the female praying mantis who bites the head off her male lover, the stock market (at 35 times dividends), if past history is any criterion, will be biting the head off its love-stricken investors.

Comments on the PTI and A-D ratio are on page 2, and you should study these two indices carefully, since they tell us a lot about the immediate trend. However, for the BIG picture or primary trend I always defer to the Dow Theory. I believe that January-February 1994 saw the death of the great bull. I further believe that all the action since January-February has just been part of a major but slow-building top. Why do I pick January-February as the graveyard for the bull? Because that's when the *majority of NYSE stocks (as measured by the A-D ratio) topped out.* That's also when the D-J Transportation Average topped out. As for the Utility Average, you might remember that that Average topped out many months earlier -- in September 1993.

Bull market tops tend to be difficult to identify. Unlike bear market bottoms which usually end with a dull sideways or a V-shaped bottom, bull market tops can stretch on and on as large interests slowly distribute and as the still-optimistic public continues (as it is doing now) to buy.

At or near major turns, I generally watch three phenomena: (1) I watch **values.** At bear market bottoms I watch for great values as measured by yields. The best gauge at a bear market bottom is a





Dow yield of 6% or even higher. At bull market tops I look for the Dow to yield 3% or less (as is the case now).

(2) Next I try to gauge **sentiment.** At a bear market low, sentiment invariably turns black-gloomy. You can cut the pessimism with a knife. Those of you who were with me in late-1974 know what I'm talking about (remember, with the Dow below 600 analysts were openly talking about the Dow being "cut in half" again). At bull market tops I look for stubborn optimism, predictions of ever-higher profits and prices, along with continued heavy buying from an uninformed public. (And, of course, that hackneyed excuse -- "this time it's different.")

(3) Finally, if the above two are in place I look for discrepancies and major **non-confirmations** in the Averages. For example, old timers who were with me 20 years ago may remember that in late-1974 the Transports refused to confirm the final low (577.60) in the Dow. That non-confirmation, arriving amid great stock values and accompanying black gloom, signaled that the great bear market had ended, and that a new bull market was being born.

Bringing all this to the present, we know that values are dangerously thin with the Dow at a **yield** of 2.7%. We know that **sentiment** remains bullish -- we know this because the public continues to pile into mutual funds at a multi-billion-dollar-a-month rate. Finally, we've witnessed a series of flagrant non-confirmations on the part of the Transports and the advance-decline ratio, and I have discussed this in literally every mailing this year.

A Letter: Here's a letter which I received last week from a subscriber in (would you believe) Chiang Mai, Thailand: "I am a financial advisor (money manager), and I have followed your Letters for years. We now have a situation unparalleled in my experience. Utilities dropped 32% from their highs and have had a strong rally. Transports dropped 21% and are now rallying. Seventy percent of stocks dropped 20% or more from their highs and are now bouncing, although admittedly a weaker bounce than Utilities or Transports. The Dow and S&P 500 hit new all-time highs last week, and your PTI is now above its 89-day moving average. This seems a rather bullish picture. Is it not possible that the bear market hit most stocks, but the Dow and the S&P (big cap stocks) escaped unscathed, and we are now in a new bull phase? I'm well aware of your valuation model (stocks overvalued), but I have never seen the S&P hit new highs this far into a bear market. Is it possible that the bear market is over?"

Answer: Whether bullish or bearish, the market just never makes it easy for us. And why should it? A bull market (devil that it is) wants to advance while taking as few riders along as possible. And a bear market (nasty creature that it is) wants to decline while dragging the whole world down with it.

If this market is forming a huge top and a primary bear market is in the birth-process, we should be aware that the bear wants to keep investors in stocks -- "fully invested, optimistic, and losing." Which means the bear has to wear a disguise. And what better disguise than new highs in the Dow and the S&P while the A-D ratio lags badly and the Utilities and Transports refuse to confirm. Remember, the public watches the Dow and they care little about the Transports or the Utilities or the A-D.

From a Dow Theory standpoint a new high in the Dow unconfirmed (repeatedly) by the Transports is meaningless for predictive purposes and is more apt than not to be deceptive. I've gone into this non-confirmation process many times, and there's probably little purpose in going into it again.

What I do want to stress here is **patience.** Let's allow the stock market to tells its story. Let's allow the market puzzle to unwind.

INVESTMENT POSITION: Old timers know the meaning of the phrase, *"When in doubt, stay out."* There's nothing wrong with avoiding a market that you're not sure of -- or one that you just plain don't like. The great thing about the markets is that *"they're always there."* The sun can stop shining, hell can freeze over, presidents can come and go, but the markets are always there. And if you don't love the stock market at some particular time, you have bonds, zinc, orange juice, gold, wheat and a few dozen other items. It's a wide, wide world of finance, and the menu is huge -- and constantly changing.

As I've said a hundred times before, "In a bear market the person who loses the least is the winner." This is a bear market, and at this juncture a lot of people are losing. You've been buying mutual funds. Mmm, add up your losses. You have a nice, diversified portfolio of stocks? Odds are good that you are losing. You're in bonds? Are you losing? Don't ask. You bought a house last year or the year before. If you can sell it today for what you paid, well, you're lucky. Oh, you were smart enough to move into T-bills or cash. Great, but unfortunately, the dollar has collapsed against the "hard currencies." *Nevertheless, for the average person cash or its equivalent was the place to be.*

In the meantime, the main task that I'm setting for my subscribers is to **avoid losses.** It's important that subscribers see through the subterfuge, avoid the propaganda, stay on the sidelines, and avoid losses.

THE FADING DOLLAR or PLEASE, WHO'LL BUY OUR DEBT? I've been writing about this and warning about this for a long time. But the situation is slowly coming to a head, which prompts me to write a bit more on the subject. Here goes :

The US has been running up debts and deficits for the last 50 years. To be more specific, the US is now increasing the national debt at the rate of $300 billion a year (or a trillion dollars every three years). Next year, in 1996, the US national debt will pass the $5 trillion mark with (sadly enough) no respite in sight.

Here in 1995 all the negative components are coming together. I'll list a few: (1) The Balanced Budget Amendment was defeated in the Senate, thus raising international doubts about any US resolve to bring a halt to its chronic debt-creation habit.

(2) The US has tied itself to the collapsing Mexican economy. In extending a $20 billion loan to Mexico, the US has acted as Mexico's "central bank." As this is written, it is somewhat doubtful whether Mexico will even accept the very stiff US terms. If Mexico starts to "go under," will the US pledge even more dollars? The world wonders (and perspires at the thought).

(3) Our "Northern Neighbor," Canada is also over its head in debt. The Canadian dollar has declined to the point where it's now valued

at a lowly 71 US cents. Thus both Canada and Mexico have "cheap" currencies and neither will be able to buy US goods (while at the same time Mexican and Canadian goods will appear cheap to Americans). This unfortunate situation will have an adverse effect on the US trade balance, which is already chronically in deficit (the US is running a trade deficit at an annualized $165 billion).

(4) For decades Japan has been buying US debt (much of it long term as per the Treasury 30-year bonds). This "bail-out process" is now coming to a close. Japan is in recession, and the Japanese "economic bubble" has burst. Consequently, Japan is now repatriating its overseas assets, selling US property (for which it overpaid), and converting the results of those dollar sales back into yen. On top of that, Japan is reluctant to accept low interest rates on dollars. What will cause the Japanese to hold weak US dollars? Among other things -- higher US rates. On top of everything else, Japan's huge trade surplus (now running at $140 billion a year) will be shrinking in the years ahead (example: Honda is cutting its exports by 60%). In other words, Japan's exports will be declining, which will mean a much smaller pool of money to finance America's deficits.

(5) Overseas investors and central banks now refer to the "North American currencies," which means that they link the dollar, the Canadian dollar and the peso together as simply "an undesirable group of deficit-ridden currencies."

(6) The big US budget expense items are defense, Medicare and interest on the debt. (The latter, of course, is increasing as interest rates rise and as the debt increases. In fact, interest on the debt is not only rising, it's *compounding* to higher levels.)

Do Congress and the President have the guts or the will to cut defense and Medicare, both of which are "hot" political items? So far, the answer is no. As for interest on the debt, there's obviously no way to cut that. Note: in a few years interest costs on the Federal budget will pass the cost of defense.

(7) Roughly 60% of all the world's central banks' reserves are now held in dollars, this despite the fact that the US accounts for only 22% of the world's production. Central banks are now **diversifying out of weak dollars** and into D-marks, yen, Swiss francs and other favored currencies. This is putting continuing international pressure on the dollar.

(8) Our Federal Reserve is seen as a *political* institution. When the chips are down and it's a case of saving the dollar or bailing us out of recession, the world knows that politics and the economy will win.

(9) The US trade deficit is running at a negative annualized rate of $165 billion. Thus, the world is filling up with an ocean of dollars. This can't go on, or let's say it can, but on the face of it the dollar cannot hold up.

(10) After a wild all-night party, the party-goers must deal with the bad news -- headaches, lost wallets, broken furniture, law suits, angry words and even threats from the neighbors. Result -- the party people will have to take "the treatment." The treatment entails swearing off liquor (at least for a while), trying to repair their reputations, maybe going to the doctor for pills, and paying the bills for damage.

The US has been enjoying the good life via a 50 year party, a party financed by endless borrowing. Now the party is coming to a close. The liquor in the punch bowl has about run out.

Question -- with the party ending, who will suffer? Answer -- the US economy will suffer, stocks will suffer, US citizens and their purchasing power will suffer -- but initially IT'S THE DOLLAR THAT IS SUFFERING.

As the dollar declines, overseas holders of billions of dollars of US securities are feeling the pain of losses. And increasingly, they want "out." This puts continuing pressure on US bonds, notes and bills, but stocks will follow.

Escape? The US thinks it has an "ace in the hole." It won't have to depend as much on Japan to buy its deficits. Instead, the US hopes to depend on central banks from an assortment of newly industrialized nations, many of them Asians with currencies linked to the dollar. But will these nations continue to buy depreciating dollars? We'll see.

On March 6 the *WSJ* included an article that dealt with the "unthinkable." The unthinkable was the end of the dollar as the world's reserve currency. In the face of US external debts of $750 billion, central banks are "diversifying" out of dollars. So the question -- what would an end to the dollar's reserve status mean? For one thing, it would mean that the US could no longer issue debt and then enjoy the privilege of paying back that debt in its own currency (it might have to pay its debt back in "expensive" yen or D-marks).

For another thing, the end of the dollar as a reserve currency would represent a huge blow to US prestige. And third, it would signify that US power was in a long-term decline, giving way to the increasing power of other nations, particularly Germany, Japan and the rising nations of Asia.

Economist Says Clinton Faces Disaster If Peso Aid Falters

By RICHARD ACELLO
Daily Transcript Finance Writer

President Clinton risks a "terrible political disaster" if the Mexican peso bailout goes sour, said a former Reagan administration "There's no way they can escape taking a hit."

It is unfair to lay the bailout at Wall Street's door, said the Northern Trust consultant, since Main Street's mutual fund holders would

Notes: As a matter of interest, only one major central bank is sworn (in its by-laws) to protect its currency above all regardless of the shape the economy is in. That central bank is Germany's Bundesbank. This probably explains why the D-mark remains super-strong (the Germans will take any kind of recession rather than see their beloved D-mark turn weak).

And speaking of the D-mark, its strength is killing the long-sought goal of a single European currency. The spread between the strongest and the weakest Euro-currency is now a very wide 11.5%. And observers believe that the present currency band (currencies are only allowed to move 15% above or below the D-mark) could be tested in coming months -- for instance, the Italian lira has been plunging and both Spain and Portugal devalued their currencies last week. The idea of a single European currency is based on the premise that inflation, government deficits and economic performance of the major European nations would converge. That just isn't happening, and Germany's powerful D-mark, which is pressuring most of the other Euro-currencies, is telling the story.

NOTES & QUOTES: What do I love about the markets? Just this -- the analysts and the "experts" may talk the talk, but it's the markets that walk the walk. In other words, you can read your head off through every financial publication under the sun, but it's the markets that have the last word. It's at the markets where the real stories are told.

There's another item that has always fascinated me. It's how the smartest and most experienced people in this business can be dead wrong (and usually at the most inopportune times). Despite these ironies, I still read as much "market literature" as I can. But I've learned (the hard way) to read with a liberal sprinkling of skepticism. After all, you might remember the old Richard Russell adage -- *"There are no geniuses on Wall Street, only geniuses for a while."*

Which reminds me of another well-known warning for market forecasters, *"When predicting, pick a price level but don't pick a time -- or if you pick a time don't pick a price level."* Ah yes, the life of a Wall Street soothsayer is a dangerous one, and often a short-lived one.

* *

While I'm in a philosophical bent, what about that 28-year-old trader who sank Britain's 233-year-old investment house, Barings, PLC, with a $27 billion unauthorized position and a loss of roughly $1.5 billion (that's the latest count). Well, the guy just positioned himself on the wrong side of the market -- and darned if he didn't double up as he tried to recoup his losses. I've often discussed this depressing syndrome with my friend, Mike Susak, who's a very successful options and futures trader. We both marvel that so many supposed veteran market people (often in charge of hundreds of millions of dollars in investments) don't really understand what they're doing or at least don't realize when they're at high risk. They don't understand risk management, and they assume positions which they fail to "neutralize" when they're wrong. Or else they'll simply freeze when the market goes against them. ("Oh God, I'm getting killed, but maybe the market will turn around and bail me out." Yeah, right.)

The young trader at Barings -- he assumed a huge position betting that the Nikkei would rise along with Japanese bonds. So when the Japanese stocks and bonds headed lower, what did he do? He continued to leverage his position. He didn't sell futures to hedge his position, he didn't buy put options to hedge, he just kept hoping. And in the market when you find yourself hoping, watch out -- you're on the royal road to losses.

* *

The main reason the US budget has declined three years in a row is reductions in defense. Clinton crows about shrinking the government payroll, but of the 156,000 civilian jobs that were cut from 1993 to '96, 83% were in defense. In fact, the US is currently spending only 4% of GDP on defense. That figure is the lowest in half a century.

* *

Got a call from Joe Granville on March 1. Joe and I were both surprised by the extraordinary lack of individual new stock highs in the face of the new highs in the Averages. So Joe did some research -- he ran off a list of the first 100 stocks in the S&P 500. Of the first 100 stocks, only eight hit new highs on Feb. 28 (this with the S&P at a new high). Just as strange, many other stocks on the list were down 20% to even 40%. On the same day, with the Dow only a fraction below its record high, only three of the 30 Dow stocks hit new highs. So it's no wonder so many people have been frustrated by this market. It's been a tough market to make money in, regardless of whether a person's been in stocks, bonds, international stocks and bonds, mutual or even hedge funds.

* *

This from the *San Diego Union* (and remember, we're only 25 miles north of Mexico, so we're rather sensitive to what's going on "down there"): *"A Guadalajara factory worker named Antonio lost half his salary as the peso slid, while prices for everything from fuel to milk spiraled out of control. What to do? Tighten his belt? Get a second job? Join a revolution? Or make an illegal trip to the US in hopes of finding work that pays in dollars? Immigration scholars and government analysts would love to know what's on Antonio's mind, and the minds of millions of Mexican men and women who might be mulling a move to the north."* **Russell comment:** A recent poll of Mexican businessmen showed that 54% believed that their firms were heading for bankruptcy.

And now we hear that Treasury Secretary Rubin's old firm, Goldman Sachs, holds some Mexican investments and also that the firm was the number one underwriter of Mexican equities and bonds from 1992 through 1994. Also, the $20 billion in direct funds to Mexico came from a Treasury Dept. discretionary fund personally controlled by Secretary Rubin. **Russell comment:** Could there be a connection between the instant bailout of Mexico and er, uh, Rubin and the administration? Nah, that's too tawdry a thought to even contemplate. Nevertheless, angry Congressmen are now investigating.

* *

What are my favorite food stores? They're Trader Joe's, the low-fat, no-fat extraordinary food stores that dot the West. Trader Joe's started out selling good wine at great prices, but now it sells hundreds of unusual grocery items at great prices. Subscriber John Shields runs the show -- and wait, you lucky Easterners, Trader Joe's is heading your way. Question -- will New Yorkers buy a bag of Spring Berry Crunch Granola or nitrate-free turkey sausage breakfast burritos ($1.39 a package)? Says Shields, "We're a fashion food retailer. People are coming to us expecting new things." The current 68 stores are owned by the wealthy Albrecht family of Germany, and the company does not disclose profits. Sales so far -- $608 million. **Russell prediction:** Trader Joe's will be a raging success in the East.

* *

Encouraging words from Bill Archer, Chairman of the House Ways and Means Committee: "I want to tear the income tax out by its roots. I want to get the income tax out of our lives completely . . . We've still got to get ready to debate between a flat tax and a broad consumption tax . . . I look forward to seeing a full-blown debate this year . . . the flat tax does not eliminate the Internal Revenue Service from our lives. It still taxes savings at 17 to 20%." **Russell comment:** What I'd like to know is why with all their complaining about taxes, the Republicans, in their Contract With America, never even hinted at canceling Clinton's huge tax boost.

Incidentally, the US tax code runs to 4 inches thick or 4,000 pages, and the rules are so complicated that it takes a 9-inch thick volume for explanations and regulations, according to the Tax Foundation (a total of 5.6 million words).

* *

Why do people buy muni bonds? Here's the answer: On a joint return of $91,000 to $140,000 you pay 31% in federal taxes. At that rate a 5.5% muni bond is equivalent to 7.97% in interest. Next, a joint return of $140,000 to $250,000 pays fed taxes of 36%. At 5.5%, a muni pays you the equivalent of 8.59%. And for a big earner with a joint return of over $250,000, the poor devils pay fed taxes of 39.6% (thank you Mr. Clinton). At this level, a 5.5% muni bond pays an equivalent return of 9.11%.

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Corporate down-sizing continues. As *US News and World Report* (Feb. 27) puts it, *"The great employers of the 20th century have now become the great un-employers. From 1980 to 1993 the 500 largest US manufacturing corporations cut payrolls by 4.7 million jobs, a reduction of more than 25% . . . And those with jobs do not feel much of a glow. The median income for US households adjusted for inflation is down about 7% since 1989 alone. It is no wonder the President and other leaders repeat that Americans are working harder for less and that too many cannot be sure of a job next year, or even next month."*

* *

Joblessness is worst since '30s, says ILO

By Robert Taylor, Employment Editor

Thirty per cent of the world's workforce – some 820m people – are unemployed or under-employed, the highest figure since the Great Depression of the 1930s, according to the International Labour Organisation in its first annual employment report, published today.

"The present situation is

unrest. It also favours cuts in non-wage labour costs such as payroll taxes and social security benefits, particularly for low paid workers as well as incentives to encourage the long-term jobless back to work.

It also argues that labour market rigidities in western Europe are not the main reason why its unemployment rates are higher than those in the more deregulated US.

Speaking of jobs, London's *Financial Times* (Feb. 23) states that world joblessness is the worst since the Great Depression and that a scary 30% of the world's work force (820 million people) are now unemployed or underemployed.

* *

Ronald Reagan pushed up the US national debt at the rate of $234 billion a year. George Bush did a bit worse, increasing the debt by $371 billion a year. So far Bill Clinton has been adding debt at the rate of $326 billion a year. Latest 12-month addition to the US national debt -- $300 billion, and you wonder why the dollar is tanking?

* *

Time passes: **1962** -- I went to the manager of my local San Diego bank (this was just prior to the severe 1962 stock market cave-in) and told him I wanted to buy some Treasury bills. He looked blank: "Fine with me," he said, "but I don't know what a Treasury bill is, but I'm sure we don't handle them" . . . **1974** -- I was a speaker at the first Jim Blanchard conference, which was called, "The National Committee to Legalize Gold" (or something pretty close to that). The conference was held in Bermuda. I remember that I was walking down a path with Jim Benham (who, by the way, plays a mean trumpet), and Jim was telling me that he was starting this new fund which would consist almost entirely of T-bills. The concept of selling T-bills in a fund was new, and it sounded totally logical to me. "Only thing," said Jim, "is that I'm having one heck of a time trying to raise $150 million, which is what I need to start the fund" . . . **1995** -- A few weeks ago it was announced that the $10 billion (or was is $12 billion, I'm not sure) Benham group of funds (mostly fixed income) was merging with the Twentieth Century group of funds (mostly equity funds). The merger will put the combined group in the $45 billion dollar class. Ah yes, it's a long way from 1974 and trying to raise $150 million to 1995 and multi-billions, right, Jim Benham?

* *

With the collapse of Mexico's peso, the forecast is that hundreds of thousands of jobs north of the border and billions of dollars in exports will be lost. Regional Financial Associates of West Chester, PA estimates that during the next four years the peso's collapse and US loss of exports will result in a loss of 380,000 US jobs. Losses they say, will concentrate on the border states, Texas, California and Arizona. Lori Taylor, senior economist for the Fed. Res. Bank of Dallas believes that the peso devaluation will hit Texas four times as hard as other states because Texas is the source of one-third of US exports to Mexico. She looks for Texas to lose 75,000 jobs. To put it bluntly, the new prosperity that President Clinton promised by NAFTA is not going to happen, at least not for many years to come. No wonder the Prez rushed in with American billions to try to keep Mexico afloat.

* *

Can a US Senator be President? Yes, but strangely, it seldom happens. In 200 years, only two sitting Senators, Warren Harding and John Kennedy, have made it to the Presidency. The ideal road to the Presidency is military (Jackson, Grant, Eisenhower) or governorship (Hayes, Cleveland, McKinley, Wilson, Roosevelt, Clinton). Even former governors Carter and Reagan have won the Presidency. And then there's always the vice-Presidency path as per Truman or Lyndon Johnson. Nevertheless, with Bill Clinton being such an

unpopular President, a covey of Republican Senators are now shooting for the White House.

* *

Note to Clinton: At the end of April Jennifer Flower's new book will be in the book stores. I read her interview in *Penthouse* (which appeared about a year ago), and it most definitely had the ring of truth about it. My prediction -- the book will be devastating for Clinton.

* *

We all know about Chinese piracy in the electronics trade, but this is too much. Gourmets (particularly the French variety) have for centuries been wild about a type of mushroom called black truffles (often referred to as "black diamonds" because of their rarity). These truffles are found only around the roots of oak trees, and pigs or dogs are trained to locate them. Sadly, the French output of truffles has dropped from 800 tons at the end of the last century to a pitiful 20 tons today. Black truffles now sell for about $270 a pound. But ye gods, now what's happened? The Chinese have been selling a look-alike mushroom and dousing the damnable impostor with truffle-scented oil. The French estimate the several hundred tons of Chinese truffle look-alikes are being flown into France, and the foreign product has become a plague. The worst part of it is that many Frenchmen have trouble distinguishing the Chinese product from the real, authentic, French product. Is there any decency left in the world?

* *

In my question regarding who actually owns the Federal Reserve (which is neither federal nor is it a reserve), here's one answer: The key NY Federal Reserve's stock is owned by a number of banks. The largest holdings are Citibank, N.A. -- 2.3 million shares or 20% ownership. Chase Manhattan Bank -- 2.0 million shares or 17% ownership. Morgan Guarantee Trust at 1.0 million shares or 9% ownership. Manufacturers Hanover -- 977,000 shares or 8% ownership. Plus six other major banks, but the four noted above own 54% of the Fed's stock. Commercial banks who own these shares pay $50 a share and own shares in proportion to their capital. These shares cannot be sold or transferred. **QUESTIONS** -- does the Fed pay dividends on the stocks that these banks own? Second question -- why has there never been an audit of the Fed? Third question -- since four banks own controlling interest in the powerful NY Fed, can these banks dictate their wishes and wants to the NY Fed? If not, what's the point (or the advantage) in their holding stock in the Fed?

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President Clinton is already campaigning for the '96 election. Here's a man who's spent literally his whole life running -- and more specifically running for office. You have to wonder whether "Running Willy" knows how to do anything else. Oh yes, he is doing something else. Rather than being "the great cooperator," Running Willy is now fighting the GOP on almost every issue (you see, he's decided this is the way to get re-elected).

But what about the Republicans. They're convinced that any GOP candidate can beat Running Willy. So we have the following parade of candidates -- Senator Phil Gramm, the most conservative of the bunch; we have Senator Bob Dole, the oldest and the only war hero; we have Sen. Arlen Spector, the most pro-choice; we have Education Secretary Lamar Alexander, the most "outside Washington;" and we have Pat Buchanan, the most outspoken and strident. That's not all -- in the wings we have California's governor, Pete Wilson. A former San Diego mayor, he'd love to get the nomination. Since the Republican Convention will be in San Diego, getting the nomination would be a double triumph for Pete.

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What really brought the Republicans in as the majority party? Writes the *Christian Science Monitor* (one of my favorite papers), "It is the populist revolt against the elites -- against the big news media, big Hollywood, big unions, and big business, but most of all against the big, highly centralized, monopoly of power government."

It's a revolt by middle America, from Orlando to Vegas, from Texas to North Carolina. The revolt is centered in the growth areas of the nation, and their motto is "get off my back, let me make money and, damn it, let me keep my money." One millionaire who is also an activist against government speaks bitterly about *"corporate socialists in big business who have made their peace with big government."*

So the Republican majority represents a revolt of the downtrodden little businessman, the middle-class American who doesn't have the money to hire a big-time law firm to protect him, who feels that he has no representation in Washington, who feels that "affirmative action" is unfair and has left him without a job. And to many, Newt Gingrich represents a return to the Constitution, that law of the land that has been shamelessly subverted by generations of liberal Democrats who have created a welfare system that has burdened the US with an unbelievable, astronomical mountain of debt and deficits (of course, the Republicans have hardly helped in this area).

Sensing all the above, Running Willy has announced that in dealing with every problem, he asks himself one central question -- "How will it affect the middle class?" **Russell comment:** I think I'm getting sick to my stomach.

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Is G-7 an antique? The 20-year old Group of Seven (US, Japan, Germany, France, Britain, Canada, Italy) is stumbling badly, and maybe its worst "non-performance" occurred when it stood by paralyzed as the Mexican peso collapsed. Critics say that G-7 is not representative of the "new world economy" since China and Russia are not in the group. As for a single European currency, it's still a dream, and it's a dream that's dying in the face of the various devaluing currencies (the latest being Portugal and Spain last weekend).

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Out of Fashion

Many Women Lose Interest in Clothes, To Retailers' Dismay

Some Blame Strange Styling; Glut of Stores and Slump In Prices Also Hit Profits

A Suburbanite's Kmart Find

By Teri Agins
Staff Reporter of The Wall Street Journal

The tricks of the fashion trade no longer work for Contempo Casuals.

One of the ubiquitous mall stores cater-

Dressing Down: it started at Microsoft and Apple. Their people came to work dressed in blue jeans, T-shirts, sweaters, sneakers. Meanwhile, IBM insisted on full dress. The Microsoft people referred to the IBM people as "suits." But then it happened -- IBM sagged and Microsoft headed skyward. So the question -- do suits and ties guarantee profits? Next, the dressing-down trend spread across the nation (Friday is "official" dress-down day at many stodgy law firms, according to wife, Faye). But wait-- the trend is having its repercussions. It's hitting retail clothes stores everywhere. Many women are losing interest in running out to buy the latest fashions. Also, the strange styles of 1994-95 (many call them "call-girl chic") are unwearable for working women (and 60% of married women now work). Dressing down is a terrific money saver, and Americans are squeezed for money. That's the story.

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Syndicated Columnist Robert Novak writes that there's a plot to destroy Newt Gingrich. The so-called "Project" is described by Harry Johnston (Dem., FL) who disclosed that the House Democratic leadership is moving on a day-by-day plan to "investigate" Gingrich and drive him from office. Says Johnston, "We meet once a week to cover what he's done through the week . . . We're going to stay on his back." Meanwhile, the Democratic National Committee publishes a weekly "NewtGram" which trashes the Speaker. Put it this way -- Gingrich has made mince-meat of the Dems, and they're out for revenge (as well as trying to save their fannies).

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This from the *Amer. Institute for Economic Research,* Gt. Barrington, MA 01230: "Have you read the Declaration of Independence recently? The 56 signers pledged . . . 'our lives, our fortunes, and our sacred honor' to the cause. Now the population has multiplied by about 70 times. Do you think it would be easy to find 3,920 citizens who would sign such a declaration today? Where are those who would prove by their actions that their 'sacred honor' is not negotiable? Perpetual inflating of a currency depreciates not only its buying power but also the standards of integrity and honor that an advancing civilization requires."

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Inflation watch -- next month the cost of a marriage license in LA will rise from $39 to $67. Mmm, that's an increase of 71%.

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Tom Hanks, actor, and Bob Zemickis, director, took low salaries to make "Forrest Gump." Instead of fat salaries, they took a percentage of the gross. Result, Forrest Gump became one of the biggest box office movies in history (the huge sales actually shocked Paramount) and Hanks and Zemickis stand to make $35 million a piece.

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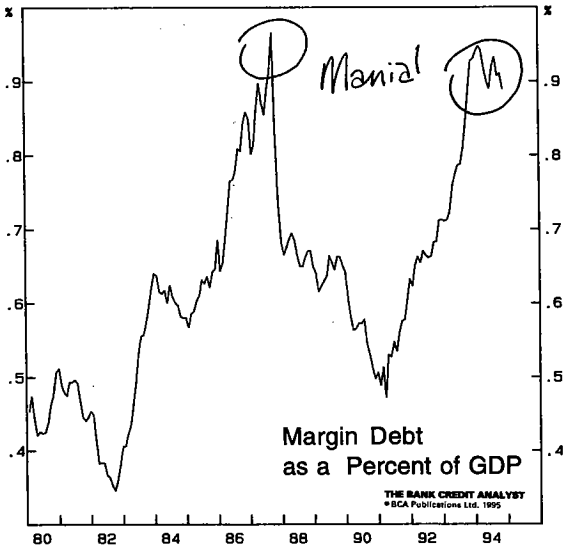
The *Bank Credit Analyst* [(800)724-2942] runs a Financial Liquidity Index, and their Index is now deep in negative territory. Says the *Analyst, "Shrinking monetary growth and increasing consumer and business credit demand mean that there is less and less financial fuel*

available for equities." They also point to margin debt as a percent of Gross Domestic Product. Here's their chart, and they label the picture, "Mania." Of course, that jibes with the current S&P 500 selling at a huge 35 times dividends (when investors pay that much for dividends, history tells us that they are super-bullish about stocks).



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ASIAN MIGRATION: Roughly 3.5 billion people or 56% of the entire world's population live in Asia. Two-thirds of the Asian population now reside in the countryside or on farms. However, there's currently a massive move by the Asian population to move to the cities (where wages are higher, where life tends to be easier and where there are more advantages). This trend will have important effects on the rest of the world. For one thing, as Asians leave the farms there will be a call for an increasing amount of the rest of the world's resources (oil, meats, grains). Also, there will be a giant need for **more capital,** so much so that there could be a strain on the world's capital markets (pressure for higher interest rates). The figure economists use is that over the next 25 years one billion Asians will be moving to the cities. Nothing like this population shift has been see before in world history. The three largest Asian nations involved in this mass migration will be China, India and Indonesia.

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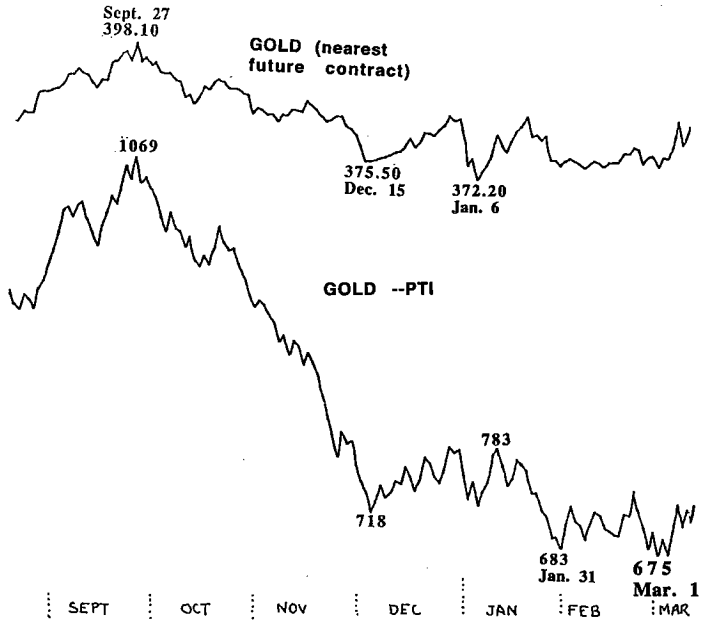
Mexico has come out with a Draconian set of economic reforms. The new "rules" put the squeeze on consumption. Mexicans are already being squeezed and how they react to the new Draconian reforms remains to be seen. I can tell you this. With the value of the peso literally halved, I can go down to Tijuana this afternoon and find that prices haven't changed that much. In fact, except for pharmaceuticals I don't find any bargains in Mexico. Don't ask my why, but the new cheap peso hasn't brought down prices there, at least as far as what I see here on the border.

American exports to Mexico, once touted by Clinton as a sign of the success of NAFTA, have ground to a near-halt. Business in Mexico is off 40 to 50%, and I'm wondering how long Mexicans are going to take it.

GOLD: I guess I get more calls and letters about gold than any other subject. Subscribers want to know when gold is going to move (and, of course, the direction they want is up). My non-answer is that I don't have a gold crystal ball. It was surprising to see that with all the recent weakness in the dollar and all the turmoil in the currency markets that gold didn't surge above 400. But it just didn't. But at the same time gold refused to fall below the critical 368-370 level, and this action keeps gold bulls, maybe not happy, but at least hoping.

I am including here my chart of the Gold-Primary Trend Index. This is not an inspiring picture, but at least it's telling us what's happening. On March 1 the G-PTI hit a new low of 675, only slightly below the January 31 level of 683. Remember, before an



item can turn bullish, the downside momentum has to ebb. I do think that's what's happening.

It's clear that the important upside target for the Gold-PTI is the 783 peak recorded in early January. On the actual price of gold, 385 would be the first bullish upside objective. The June 400 gold options that I mentioned in the last Letter (they were $130 then) have climbed to today's 420 (i.e., $420 an option).

LATE NOTES: It's a market truism that what won't go down will surely go up, and that, in a nut-shell, has been the story of the Dow. At the slightest hint of encouragement, investors rush in to buy the big-cap Dow stocks. What surprises me is how insulated the stock market is (at least, so far) from the chronically weak dollar. Could the dollar crisis be over? I sincerely doubt it. Be sure to read the lead-off piece ("The Dollar's Dirge") in the March 13 *Barron's.*

The Transports, the Utilities and the advance-decline ratio continue to be the problems for the stock market. These three continue to lag, even in the face of the record Dow highs. I've seen a lot of strange markets, but this one really takes the cake (note on Mar. 10, with the Dow at a new record high, there were only 59 new highs on the NYSE -- amazing).

Meanwhile, in Japan the Nikkei stock average closed (March 10) in the mid 17,000s, its lowest level since November 1993 (remember, the bull market high for the Nikkei was just a fraction below 40,000). Japan is slipping into something resembling recession, which means that Japan will be cutting down on imports from the US (and that, in turn, will impact on the US balance-of-payments).

The Dollar: Each week I tabulate the annual additions to the US national debt. Latest figure -- in the last 12 months the US has added a whopping $304 billion to the national debt. Obviously, I'm not the only man in the world who watches this figure. No, the foreign creditors of the US also watch this figure. And they've got to be saying to themselves, "With all the talk, nothing's changing. In fact, the figures are getting worse, so why should I stay in dollars."

The "bond vigilantes" are now being superseded by the "currency vigilantes." Trillions of dollars worth of various currencies are now whizzing around the world electronically -- and the operative words is **deficits.** If your nation is running large deficits and you're not doing anything about it, watch out. The currency vigilantes will drop your currency "like a bad habit." It's a new world out there, and Washington "doesn't get it" -- yet.

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